



Fraser's Commercial Trust (Bloomberg: FCOT SP)

AmFraser

Downgrading on share price appreciation

HOLD

(Downgrade)

LAST CLOSE: S\$1.42

FAIR VALUE: S\$1.47

(Previous: S\$1.45)

Tuesday, 22 July 2014

Rationale for report: Company Update

Financials

YE Sep (\$m)	2013	2014F	2015F	2016F
Revenue	118.2	121.0	137.8	140.9
Net Property Income	90.9	91.4	99.9	102.2
DPU (cents)	7.8	8.6	9.8	10.6
EPU (cents)	24.1	7.9	9.4	9.7
Div Yield (%)	5.5	6.1	6.9	7.5

Key Operating Statistics

	2013	2014F	2015F	2016F
ROE (%)	15.2%	5.0%	5.9%	6.1%
ROA (%)	8.7%	2.8%	3.4%	3.5%
Debt-to-Assets (%)	37.6%	37.3%	37.2%	37.2%
Current Ratio (x)	0.3	1.7	1.6	1.5
Price / Book (x)	0.8	0.9	0.9	0.9

Stock Data

Issued Units (m)	674.9
Market Cap (\$m)	957.2
Major Shareholders	Fraser's Centrepoint Limited (27.3%)
Free Float (%)	72.6%
52 week lo / hi (SGD)	1.17/1.425
Distribution frequency	Quarterly

12-Month FCOT SP (Blue) vs. FSSTI



Source: Bloomberg

Results in line. 3Q14 gross revenue, net property income and distributable income were in line with expectations, forming 24.9%, 25.7% and 26.0% of our FY14 forecasts respectively. 9M14 DPU of 6.29Sc was in line at 74.1% of FY14F DPU. The 3Q14 distribution of 2.19Sc will be paid on 29 August 2014.

China Square Central shines but Australia remains drag. Rental reversions were solid in 3Q14, with 10.7-11.5% across the Singapore properties. However, currency headwinds and higher repair and maintenance expenses continued to weigh down 3Q14 NPI, which was 1% lower YoY (9M14: -3.3%) despite higher occupancy and rental rates achieved at China Square Central. YoY NPI gains of 10% for China Square Central and 7% for Market Street were offset by NPI declines at Caroline Chisholm Centre (-10%) and Central Park (-2%) respectively.

Portfolio occupancy stays strong for stable outlook. For the third consecutive quarter, portfolio occupancy improved to 98% in 3Q14 from 97.5% and 97.1% in 2Q14 and 1Q14 respectively. FY14 leases up for renewal also declined to 2.7% from 3.9%, including pre-committed leases and excluding the Alexandra Technopark master lease. We continue to anticipate significant positive rental reversions in FY15 from this master lease expiry, as underlying leases were renewed at \$3.6psf average passing gross rents vs the master lease net rent of S\$1.8psf.

Significant refinancing in FY15. 73.6% of FCOT's S\$701m of borrowings comes due in FY15, including all its AUD-denominated debt. As the Australian cash rate is now 2.5% vs 4.25-4.75% when the term loans were issued, we think it likely that FCOT's interest cost will decrease and have nudged our FY15 interest costs down to S\$19m.

Downgrade to hold on valuation grounds, FV \$1.47. Since its 1H14 results, FCOT's share price has appreciated 8.8% (+10.9% from November 2013 initiation). At the current 52-week high, we think the market has recognised FCOT's value and the favourable supply/demand dynamics in its core Singapore office market. We estimate an FY15 forward yield of 6.9% for FCOT, but on current valuations this implies only a 10.2% total return.

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Fig 1. Results comparison table

FYE Sep (\$m)	3Q14	3Q13	% chg	2Q14	qoq % chg	9M14 Cum	9M13 Cum	% chg	Prev FY14F	% chg	Comments
Gross revenue	29.6	30.0	(1.1)	28.6	3.6	87.0	89.4	(2.7)	119.9	1.0	In line
Property operating expenses	(6.7)	(6.9)	(2.6)	(6.9)	(2.5)	(20.3)	(20.3)	(0.3)	(29.6)	1.0	In line
Net property income	22.9	23.1	(0.7)	21.7	5.6	66.7	69.1	(3.3)	90.3	1.0	In line
<i>NPI margin (%)</i>	<i>77.3</i>	<i>77.0</i>		<i>75.9</i>		<i>76.7</i>	<i>77.3</i>		<i>75.3</i>		
Management and trustee fees	(3.4)	(3.7)	(7.4)	(3.4)	0.3	(10.2)	(10.7)	(4.0)	(14.2)	1.0	In line
Net interest expense	(5.0)	(5.1)	(2.0)	(4.8)	3.3	(14.8)	(16.1)	(8.0)	(19.7)	1.0	Lower int cost only in FY15
Exceptionals	-	-	nm	-	nm	-	-	nm	-	nm	
Pretax profit	14	15	(10.1)	13	3.7	40.8	57.4	nm	56.1	1.0	In line
Tax	(0.74)	(0.42)	76.8	(0.73)	1.4	(3)	(1)	119.8	(3.3)	1.0	In line
<i>Tax rate (%)</i>	<i>(5.3)</i>	<i>(2.7)</i>	<i>nm</i>	<i>(0.1)</i>	<i>nm</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>nm</i>	<i>(5.8)</i>		
Minority interests	-	-	nm	-	nm	nm	nm	nm	-	nm	
Total return for the period	13.1	15.0	(12.5)	12.6	3.8	38.0	56.1	(32.2)	52.9	1.0	In line
Distributable income	14.8	14.6	1.5	14	7.2	42.3	44.9	(5.9)	56.8	1.0	In line
EPU (Scts)	1.95	2.23	(12.5)	1.88	3.8	5.66	8.34	(32.2)	7.91	1.0	In line
DPU (Scts)	2.19	2.19	0.3	2.05	6.8	6.29	6.68	(5.9)	8.49	1.0	In line

Source: Company, AmFraser

YE 30 Sep

INCOME STATEMENT (\$m)	2012	2013	2014F	2015F	2016F
Gross Revenue	132.9	118.2	121.0	137.8	140.9
Repairs and maintenance	(8.4)	(8.1)	(9.3)	(11.0)	(11.3)
Property management fees	(2.0)	(1.7)	(2.0)	(2.8)	(2.8)
Property tax	(4.4)	(3.2)	(3.2)	(4.1)	(4.2)
Other property operating expenses	(15.6)	(14.3)	(15.1)	(20.0)	(20.4)
Property operating expenses	(30.3)	(27.3)	(29.6)	(37.9)	(38.8)
Net property income	102.5	90.9	91.4	99.9	102.2
Interest income	0.7	0.7	0.2	0.2	0.2
Manager's management fees	(13.1)	(11.7)	(12.1)	(13.2)	(13.4)
Trust expenses	(2.2)	(2.6)	(2.1)	(2.9)	(3.0)
Others	-	-	-	-	-
Finance costs	(44.3)	(21.7)	(20.0)	(18.2)	(18.2)
Total return before other income/(expenses)	43.7	55.7	57.4	65.8	67.7
Others	68.5	96.3	(0.9)	-	-
Net loss/gain on divestments	72.8	18.2	-	-	-
Total return before income tax and distribution	185.0	170.1	56.5	65.8	67.7
Income tax expense	(16.0)	(8.3)	(3.4)	(2.4)	(2.4)
Total return for the period after income tax before distribution	169.0	161.8	53.1	63.5	65.3
Management fees paid/payable in units	10.4	7.9	3.8	3.9	7.4
Trustee's fees	0.8	0.6	0.6	0.7	0.7
Other adjustments	(118.3)	(111.4)	0.6	(1.9)	(2.0)
Net effect of non-tax deductible/(non-taxable) items and other adjustments	(107.1)	(103.0)	4.9	2.8	6.2
Income available for distribution	61.9	58.8	58.1	66.2	71.5
Income available for distribution to Unitholders	43.1	51.4	58.1	66.2	71.5

BALANCE SHEET (\$m)	2012	2013	2014F	2015F	2016F
Trade and other receivables	10.0	7.9	12.4	12.6	13.0
Derivative financial instruments	0.1	0.6	0.2	0.2	0.2
Cash and cash equivalents	458.7	42.5	50.4	47.4	45.3
Investment property held for sale	113.5	-	-	-	-
Current assets	582.3	51.1	62.9	60.2	58.4
Investment properties	1,757.5	1,811.4	1,816.2	1,822.2	1,828.2
Other assets	-	-	-	-	-
Fixed assets	0.1	0.1	0.1	0.1	0.1
Non-current assets	1,757.6	1,811.5	1,816.3	1,822.3	1,828.3
Total assets	2,339.9	1,862.5	1,879.2	1,882.5	1,886.7
Trade and other payables	62.4	21.6	32.5	33.1	34.0
Interest-bearing borrowings	-	127.4	-	-	-
Current portion of security deposits	3.0	1.5	1.3	1.3	1.3
Derivative financial instruments	5.3	3.5	2.0	2.0	2.0
Provision for taxation	0.1	1.8	0.7	0.7	0.7
Liabilities of disposal group held for sale	118.4	-	-	-	-
Current liabilities	189.2	155.7	36.4	37.0	37.9
Deferred tax liability	67.7	67.7	68.8	68.8	68.8
Non-current portion of security deposits	3.4	5.7	6.1	6.1	6.1
Interest-bearing borrowings	747.4	572.1	700.5	701.2	701.9
Non-current liabilities	818.5	645.5	775.4	776.0	776.7
Total liabilities	1,007.6	801.2	811.8	813.0	814.6
Net assets	1,332.2	1,061.4	1,067.4	1,069.5	1,072.1

CASH FLOW STATEMENT (\$m)	2012	2013	2014F	2015F	2016F
Total return before income tax	185.0	170.1	56.5	65.8	67.7
Finance costs	38.6	21.7	20.0	18.2	18.2
Adjustments	(137.2)	(120.3)	(0.5)	0.6	0.6
Interest income	(0.7)	(0.7)	(0.2)	(0.2)	(0.2)
Management fees paid/payable in units	10.4	7.9	3.8	3.9	7.4
Operating income before working capital changes	96.1	78.7	79.6	88.4	93.7
Changes in trade and other receivables	(1.0)	2.1	(4.5)	(0.2)	(0.3)
Changes in trade and other payables	38.4	(28.4)	13.3	0.6	0.9
Cash generated from operating activities	133.5	52.5	88.4	88.7	94.2
Tax paid	8.1	(0.2)	(4.6)	(2.4)	(2.4)
Net cash provided by operating activities	141.6	52.3	83.8	86.3	91.8
Capex on investment properties	(5.0)	(18.2)	(4.8)	(6.5)	(6.6)
Interest received	0.7	0.7	0.2	0.2	0.2
Acquisition costs paid	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-
Acquisition of remaining interest in subsidiary	(116.6)	-	-	-	-
Net proceeds from disposal of investment property	347.0	-	-	-	-
Proceeds from disposal of other investment	-	(13.1)	-	-	-
Dividend received	-	-	-	-	-
Cash utilised in investing activities	226.1	(30.6)	(4.6)	(6.3)	(6.4)
Net proceeds from borrowings	114.9	(31.3)	-	-	-
Issue cost paid	-	-	(0.1)	-	-
Proceeds from rights issue	-	-	-	-	-
Proceeds from realisation of derivative financial instruments	(0.8)	0.3	0.1	-	-
Payment for derivative financial instruments	(0.3)	(0.1)	-	-	-
Finance costs paid	(31.7)	(20.0)	(19.2)	(17.5)	(17.5)
Distribution paid	(58.0)	(76.6)	(51.9)	(65.4)	(70.0)
Redemption of CPPU units	-	(321.9)	-	-	-
Decrease in restricted cash	5.4	(1.7)	-	-	-
Transaction costs on borrowings	(4.2)	(0.2)	(0.1)	-	-
Cash generated from financing activities	25.4	(451.4)	(71.2)	(82.9)	(87.6)
Net increase in cash and cash equivalents	393.1	(429.7)	8.0	(2.9)	(2.1)
Cash at beginning of period	81.4	473.9	42.5	50.5	47.6
Effect of exchange rate changes	(0.6)	(1.7)	0.0	-	-
Cash at end of period	473.9	42.5	50.5	47.6	45.5

KEY RATIOS	2012	2013	2014F	2015F	2016F
YoY growth					
Net profit	-	-4%	-67%	19%	3%
Per Share data (cents)					
DPS	670%	780%	864%	985%	1063%
EPS	230%	680%	790%	944%	971%
Gearing					
Debt-to-Asset	32%	38%	37%	37%	37%
Interest coverage	2.31	4.19	4.57	5.49	5.61
Liquidity					
Current Ratio	3.08	0.33	1.73	1.63	1.54
Profitability					
ROE	13%	15%	5%	6%	6%
ROA	7%	9%	3%	3%	3%

AmFraser Research recommendations are based on a Total Return rating system, defined as follows:

BUY: >15% total return over the next 12 months

HOLD: -15% to +15% total return over the next 12 months

SELL: <-15% total return over the next 12 months

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